



Director of  
Central  
Intelligence

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# National Intelligence Daily

Saturday  
14 May 1988

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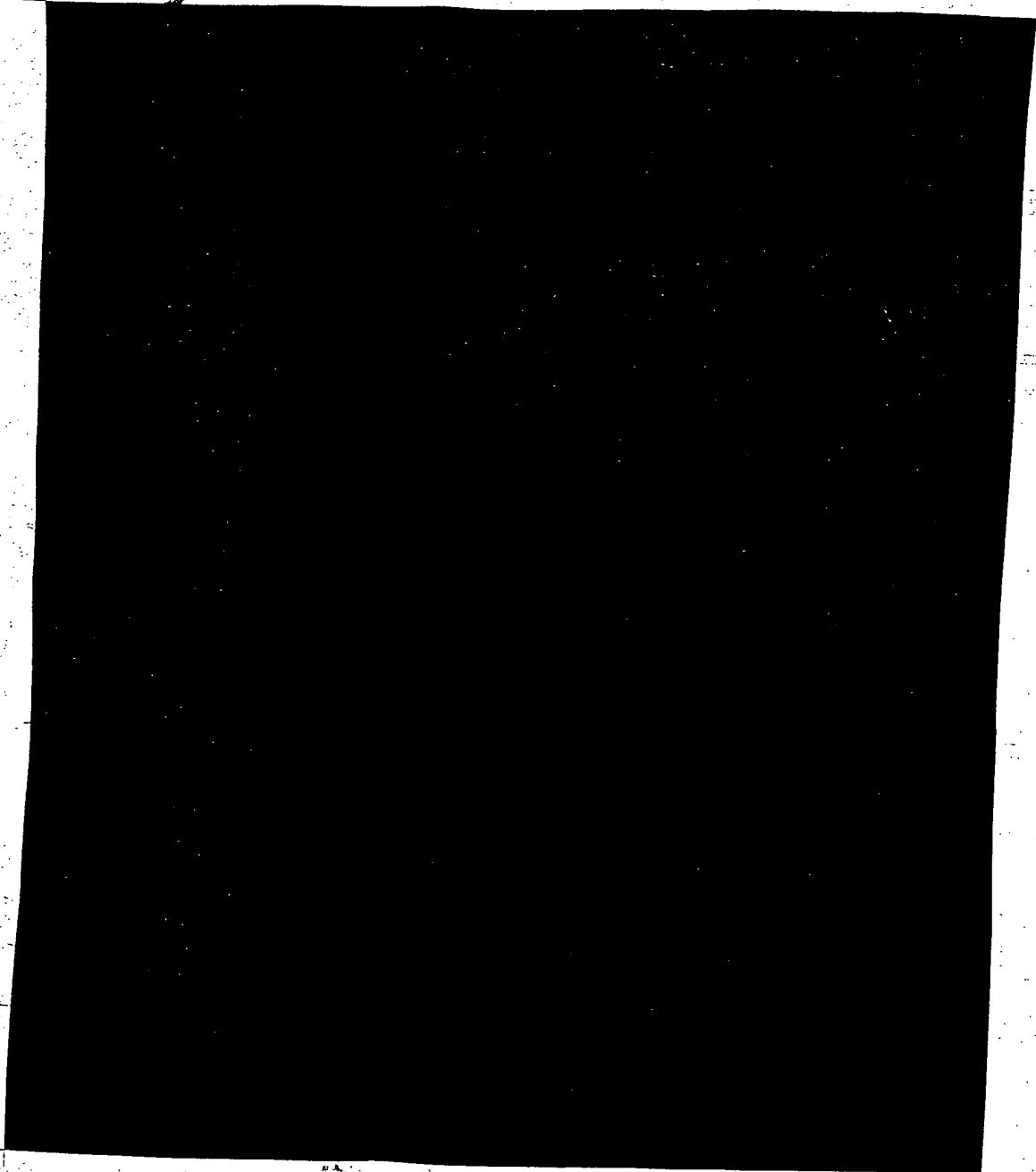
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**LEBANON:**

**Hizballah Winning Ramadan War**

*Hizballah appears on the verge of dealing Amal a massive defeat in West Beirut and reportedly plans to expand the fighting into southern Lebanon after the holy month of Ramadan.*

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Virtually all reports from West Beirut portray an overwhelming victory for Hizballah.

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The US Embassy in Damascus believes Syria is no closer to intervening and is taking no measures to cut Hizballah's supply lines to the Bekaa Valley. There are unconfirmed press reports that Syrian forces killed five Hizballah fighters who crossed into Syrian-occupied Beirut.

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*Comment:* Iranian influence is weakest when Hizballah leaders believe they are in a life-or-death confrontation, or when Hizballah receives contradictory advice from Tehran—conditions that almost certainly have applied during the recent fighting.

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New attacks against Amal in the south would be an important test of Hizballah's ability to conduct conventional military operations, something that earlier fighting there indicated was outside its capability.

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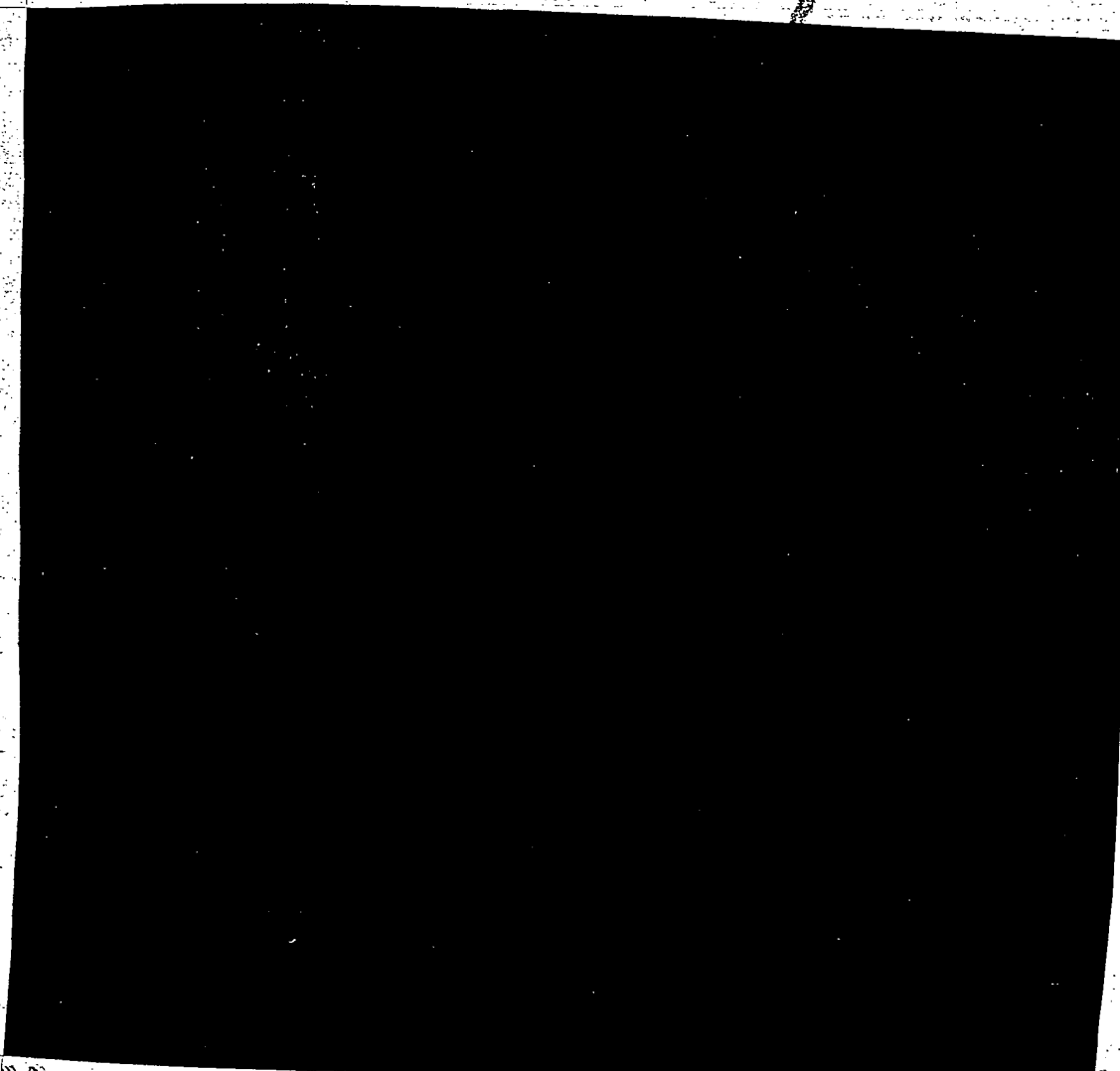
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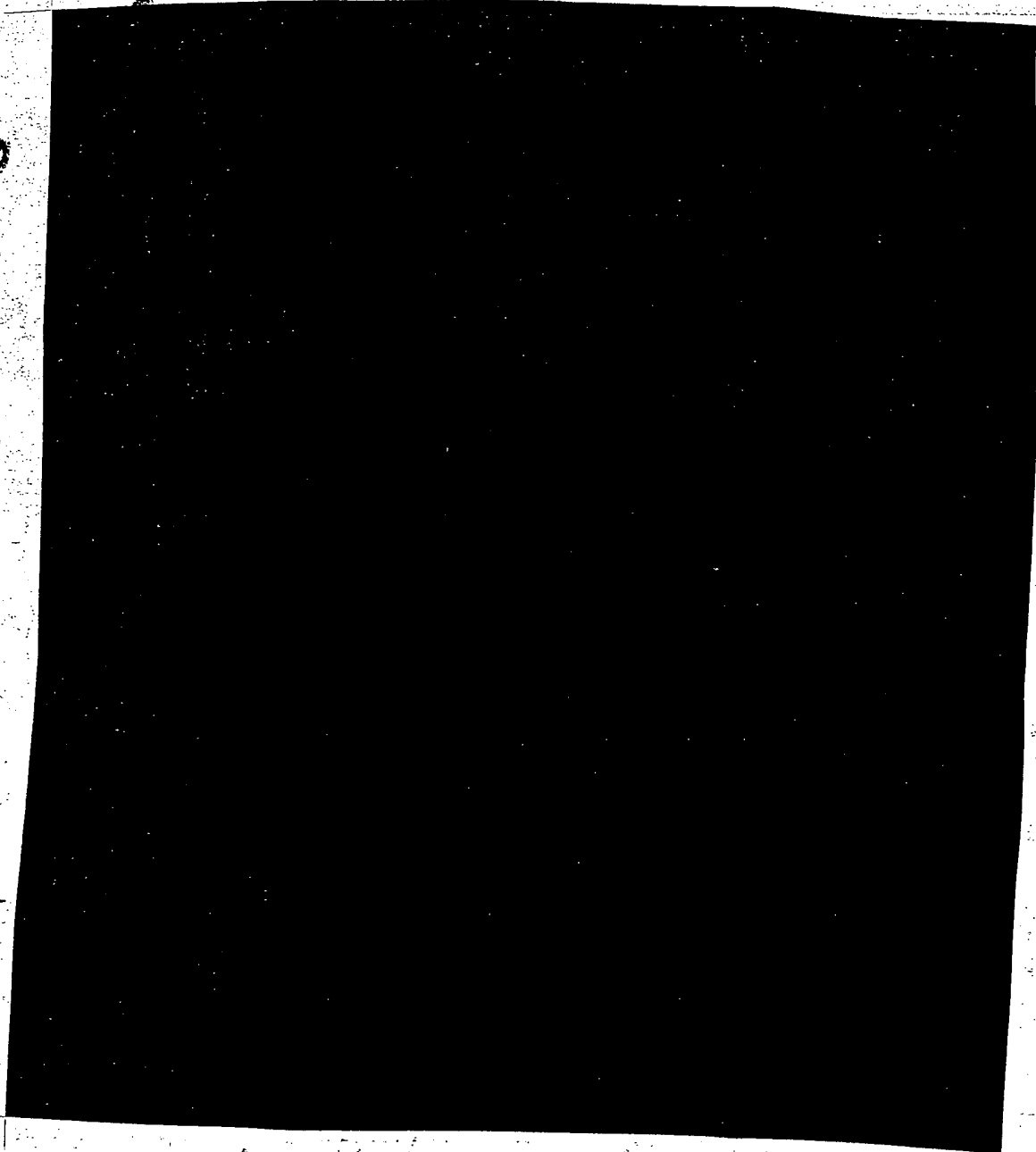
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USSR-YEMENS:

Oil Agreement

*The USSR apparently has gained a major role in North and South Yemen plans to develop jointly what is probably an oil-rich area along their disputed border.*

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[REDACTED] the two Yemens, as part of their border settlement last week, agreed to explore for oil jointly in a proposed neutral zone in the contested border area. According to [REDACTED], the oil ministers of both countries will meet shortly to begin implementing the agreement, including the selection of a foreign company to develop the 2,200-square-kilometer zone.

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[REDACTED] the USSR will have to compete against international oil companies to obtain the concession, but that the agreement apparently favors Moscow by giving it the right to match any competing bid. The Soviets are already heavily involved in South Yemen's oil development and have lobbied aggressively during the past few months to gain access to the anticipated neutral-zone reserves.

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[REDACTED] The Soviets apparently used their leverage as the major arms supplier for both countries to broker the border settlement in return for favorable treatment on the neutral zone. North Yemen has long resisted Soviet efforts to muscle in on its oil development, but Sanaa probably believed that its best chance to avoid war and to secure Aden's acceptance of the agreement was to submit to Moscow's terms.

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Both Yemens are skeptical of Moscow's ability to find and develop oilfields. To sweeten the deal, Moscow may have offered both sides additional military and economic assistance.

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Several unresolved issues may block implementation of the agreement, including the disposition of troops in the area and the distribution of eventual oil revenues. North Yemen resents Moscow's strong-arm tactics and is likely to seek participation in development of the neutral zone by Western firms, whose technology and equipment it prefers.

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## **Economic Issues on Agenda for the OECD Ministerial (negotiated by heads of delegations before the session)**

### **Promotion of Sustained, Job-Creating Growth**

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- Deregulate markets for goods and services.
- Reduce agricultural and industrial subsidies.
- Lower direct tax burdens.
- Reduce labor market rigidities.

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- Maintain flexible fiscal policy.
- Maintain noninflationary monetary policy.
- Expand structural reform via new tax, agricultural, and commercial policies.

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- Reduce federal budget deficit.
- Maintain noninflationary monetary policy.
- Hold protectionist pressures in check.
- Promote further structural flexibility.

### **Steps to Support GATT Uruguay Round**

- Support a midterm review in December.
- Condemn protectionist pressures that threaten the round.
- Highlight strong economic growth as the key to a successful round.

### **Goals for Structural Reform**

- **Agriculture.** Promote reduction of support measures as the long-term objective of reform.
- **International Investment.** Resist protectionist pressures and strengthen international cooperation.
- **Financial Markets.** Intensify international cooperation in management, particularly in crisis situations.
- **Technology.** Endorse measures to facilitate the creation and diffusion of technology and to increase understanding of its economic and social implications.
- **Human Resources Development.** Identify greater labor market flexibility and improved education and training programs as complements to structural adjustments.
- **Environmental Quality.** Support protection of the quality of air, water, and land resources.

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**INTERNATIONAL:**

**Dress Rehearsal for Toronto Summit**

*Differences over economic policy coordination, agriculture, and structural adjustment will probably limit progress at the annual two-day OECD ministerial that opens in Paris on 18 May.*

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The OECD meeting will bring together trade, finance, and other ministers of the Group of Seven and 17 other industrialized countries to take stock of the international economy.

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Most will point with pride to their strong economic performance—3-percent aggregate growth for the OECD in 1987 versus the 2.25 percent that was expected last June—and to the improved economic cooperation implicit in the successful international monetary coordination and progress being made in the current GATT round.

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Delegates are likely to warn against complacency, however, citing persistent problems of current account imbalances, high unemployment, protectionist pressures, and LDC debt. Contentious debate over the reduction of agricultural subsidies probably will dominate discussions. Most believe the US wants to move too quickly to reduce subsidies, and they will probably be reluctant to support much more than a general agreement on goals. They are likely to try to claim credit for the limited steps already taken on agricultural subsidies and to express skepticism that the US can reform its own agricultural sector.

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Significant results are unlikely to emerge from the OECD ministerial. Most countries probably will try to deflect calls for action on the more contentious issues and defer major decisions until the Toronto economic summit in June. The disagreement over agriculture is likely to slow progress toward a framework agreement for the GATT midterm review in December, in part because the West European countries insist on simultaneous agreement on all issues being considered during the current GATT round.

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SPAIN-US:

**Pressure on the Bases Issue**

*Madrid may exaggerate public pressure for a referendum on the US military presence in Spain to try to get concessions in the ongoing talks on US bases.*

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Pressure for a referendum appears relatively low at present, and any motion for a public vote would require approval by a majority in Parliament. Gonzalez almost certainly would not risk complicating Spanish-US relations by supporting such an initiative now that a base agreement is almost in sight. He can easily argue that he has lived up to his promise to reduce US forces by citing the pending removal of the highly visible 401st Tactical Fighter Wing.

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Moreover, Gonzalez is in a strong position domestically. Public opinion polls show a revival of support for the Socialists since municipal elections last year. Although some Socialists approve of the antibase positions of Suarez and the Communists, they are generally reluctant to get involved with either Suarez's fuzzy ideology or the dogmatism of the Communists.

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The government may, nonetheless, see tactical advantage in using the specter of a referendum to press Washington on the remaining issues in the negotiations. In particular, the Spanish might argue that the agreement must be altered to reflect public opposition to the introduction of nuclear weapons into Spain. In order to keep pressure for a referendum from growing

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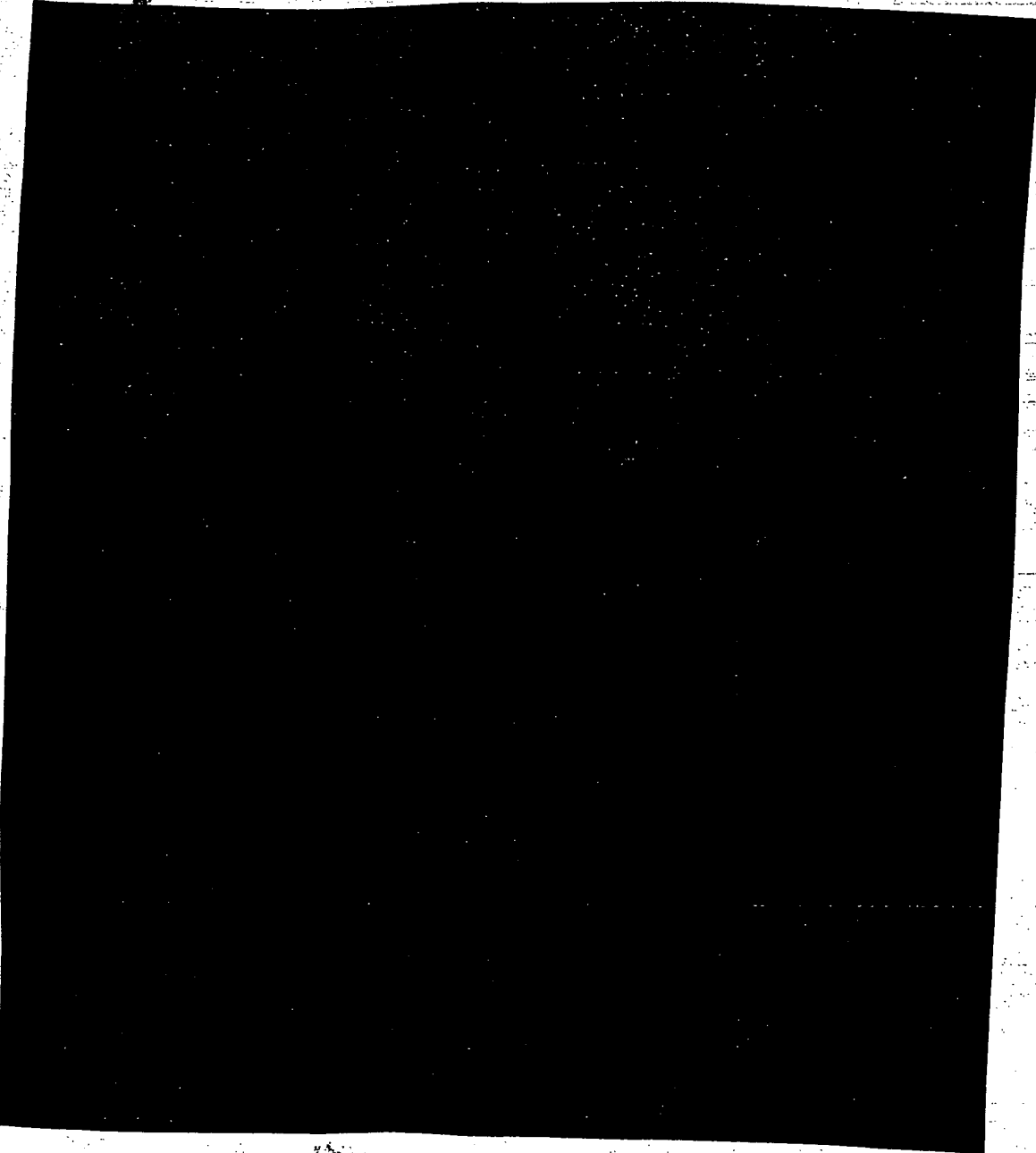
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#### USSR: Explosion Damages SS-24 Motor Propellant Line

An explosion on 12 May in Pavlograd destroyed [redacted] buildings and damaged [redacted] others at the Soviets' [redacted] operational SS-24 ICBM motor propellant line. This [redacted] line has probably been the [redacted] facility producing [redacted] motors for both the rail-mobile and silo-based versions of the SS-24 since about 1982. [redacted]

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[redacted] If the Soviets have no additional tooling and equipment in reserve, the accident will significantly effect SS-24 production. [redacted]

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[redacted]  
Soviet propellant plants have redundant capability built in to compensate for such accidents. The USSR's [redacted] strategic missile propellant plants together have had similar explosions [redacted] The effect of the accident on SS-24 missile delivery rates will probably not be felt for several months because of the time required to produce missiles [redacted]

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#### USSR: Gorbachev Pushes Agricultural Reforms

Speaking to a group of agricultural specialists on Friday, General Secretary Gorbachev lashed out at local officials for failing to implement key parts of his reform program for the country's farms. As he has on numerous past occasions, Gorbachev made an emotional pitch for more vigorous introduction of the family contract and of leasing arrangements that seek to raise production through improved individual incentives [redacted]

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[redacted] Gorbachev has demonstrated increasing frustration in recent months at the slow implementation of reform measures in agriculture and at the lack of progress in achieving a major improvement in the supply of food—a factor that is contributing to widespread public skepticism about the future success of *perestroika*. The food supply, which improved substantially in 1986, took a turn for the worse last year. The Central Committee, Gorbachev said in a speech last month, is flooded with letters complaining about shortages of livestock products in many areas of the country. In a display of unity, Gorbachev was accompanied at the meeting by senior party secretaries Ligachev and Nikonov. [redacted]

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#### USSR: More Regime Threats Against *Glasnost* Editor

[redacted] Sergey Grigor'yants—probably the best known dissident in the USSR—is now under investigation for resisting a police officer, a charge that carries a penalty of one to five years in prison. The police [redacted] have confiscated archives and a word processor that Grigor'yants uses to publish the unofficial journal *Glasnost*. Earlier this week, he was sentenced to seven days in jail on a less serious charge after a raid on his office broke up a meeting of the Democratic Union, the new would-be opposition party. [redacted]

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[redacted] The harsh reaction might reflect General Secretary Gorbachev's sensitivity to the emergence of an opposition party or a decision to quiet his conservative critics—who have been calling for a crackdown on people like Grigor'yants who are perceived to be abusing *glasnost*. By associating himself with the new party, Grigor'yants—already under attack for his activism in late March—may have made it easy for the police to justify arresting him. A long stint in jail would probably attract considerable adverse publicity for the regime on the eve of the Moscow summit, and it may yet free him when the seven-day sentence is up. Raising the threat of a serious criminal charge may be intended to deter Grigor'yants and others from supporting the new party. [redacted]

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#### USSR: New Demonstrations in the Caucasus

[redacted] of large demonstrations and strikes in Stepanakert, the capital of the predominantly Armenian Nagorno-Karabakhskaya oblast in Azerbaijan. They reportedly were touched off when an Azeri unexpectedly was appointed prosecutor there and, in an apparently unrelated development, Azeris beat an Armenian youth to death. The unrest [redacted] is continuing. A local Azeri party chief acknowledged the situation is very tense and blamed Armenians for trying to force Azeris out of the oblast, while denying Azeri responsibility. Over 40,000 Armenians reportedly rallied Thursday night in their capital Yerevan to support the reunification of Nagorno-Karabakhskaya with Armenia and to protest the detention of a nationalist leader arrested in March. [redacted]

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[redacted] The demonstrations and strikes belie earlier official claims that the situation has returned to normal. This outbreak probably surprised the regime, which had been withdrawing troops from the area since early last month. Moscow, looking toward the Communist Party conference next month, will certainly take any steps necessary to avoid an escalation such as occurred in late February when about 1 million people demonstrated in Yerevan to support Armenian claims to Nagorno-Karabakhskaya. Enough riot-control forces remain to be effective. [redacted]

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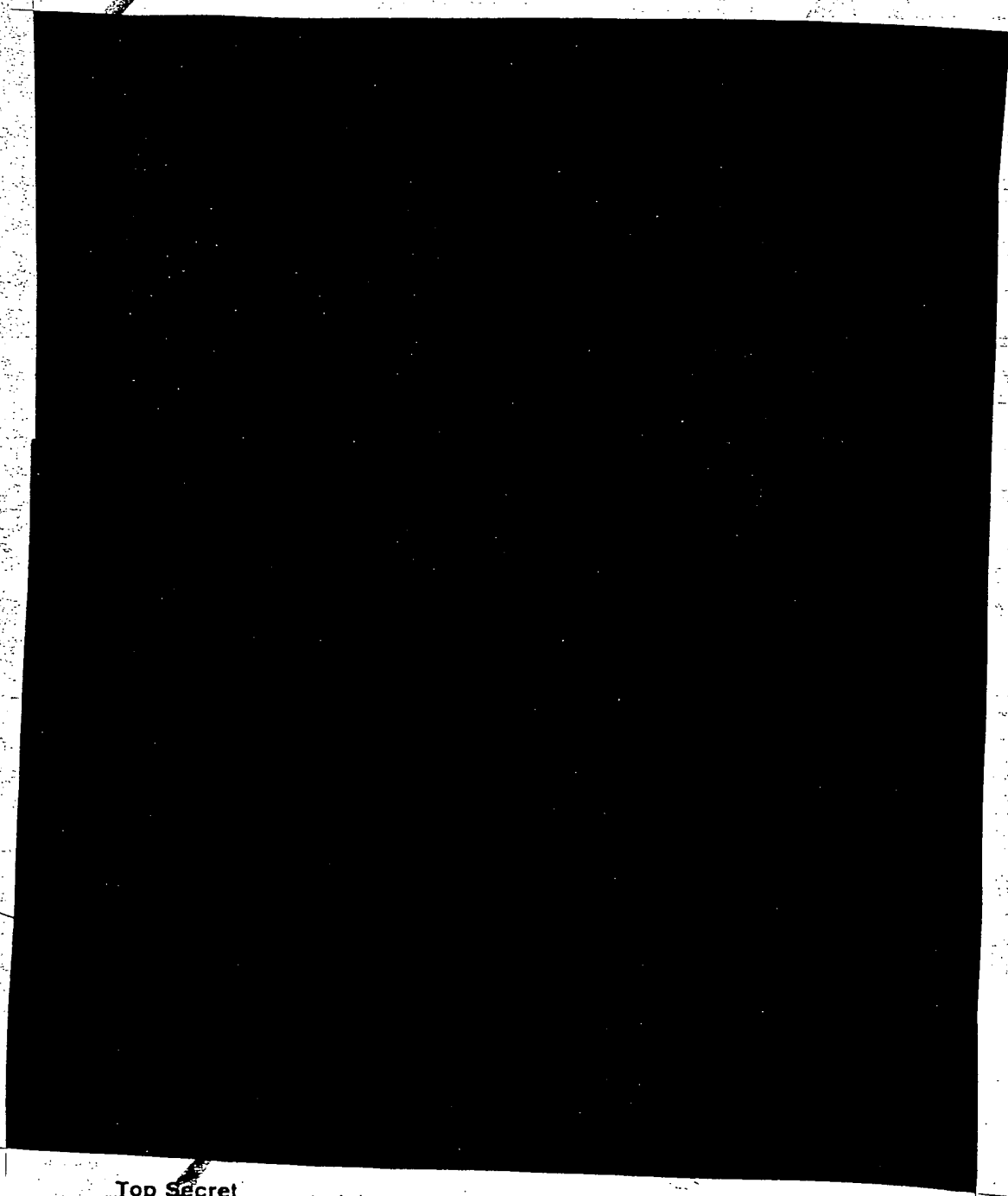


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#### YUGOSLAVIA: Assembly Session Likely To Be Heated

Yugoslav Prime Minister Mikulic may face a vote of confidence during the Assembly's formal review of his government's work, which begins this weekend. Delegations from Slovenia and Croatia have called publicly for Mikulic's ouster on the grounds of mismanaging the economy. The other six regions support the Prime Minister and recently overrode Slovene and Croatian attacks on his policies in two key assembly commissions. [REDACTED] In addition to the midterm review, a number of routine government changes are planned, including the appointment of a new defense minister and the confirmation of an interim foreign minister. [REDACTED]

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[REDACTED] Developments appear likely to further US interests. Mikulic is likely to survive a confidence vote, but the unprecedented challenge during a usually pro forma midterm review and continuing Slovene and Croatian pressure will probably force Mikulic to push harder for economic reforms. Assembly assertiveness would be a striking new sign of political liberalization in Yugoslavia. Interim Foreign Minister Loncar and Defense Minister Kadijevic are generally Western oriented and will probably be less accommodating to the PLO and radical Middle Eastern states than their predecessors. [REDACTED]

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#### PERU: Insurgent Activity Increasing

Leftist insurgents have increased terrorist actions in Lima, probably in an effort to embarrass the government before the Pope's visit this weekend. In apparently coordinated attacks on Wednesday, the Pro-Cuban Tupac Amaru Revolutionary Movement detonated a car bomb in front of a military training center and fired an explosive device at the Ministry of Interior. [REDACTED] Tupac Amaru activists interrupted a service on Thursday at a church to be visited by the Pope. The Maoist Sendero Luminoso, meanwhile, followed up recent attacks against two Canadian-owned factories with the bombing on Thursday of a police bus, killing at least 10 and wounding 30. [REDACTED]

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[REDACTED] The papal visit, which coincides with the eighth anniversary of Sendero Luminoso's first armed action, offers a convenient focus for Tupac Amaru to try reinvigorating its flagging insurgency. Recent terrorist actions by Sendero underscore surge in its political and military activity during the past six weeks. The latest violence will prompt the government to increase already tight security measures for the Pope's entourage. [REDACTED]

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#### JORDAN: Foreign Exchange Crunch

Jordan managed to overcome a foreign exchange scare in early May that caused a brief but sharp drop in the exchange rate and the flight of capital worth about \$160 million.

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The action came after Amman announced it could not pay short-term obligations owed foreign sellers because of declining foreign exchange reserves, which had fallen to a record low of \$190 million by last February. To head off a currency devaluation and further capital flight, Jordan used about \$4 million in emergency funds provided by the Arab Bank. Meanwhile, Saudi Arabia has made an early payment of \$59 million on its second \$119 million Baghdad Pact commitment usually paid after July.

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The likelihood of a continued slide in Jordan's already precariously low foreign exchange reserves and the prospect of diminished aid from other Arab countries almost certainly guarantees that Amman will come under even greater pressure to devalue its currency and increase foreign borrowing. Foreign exchange reserves may now be as low as \$90 million, the equivalent of less than one month's imports. The early Saudi payment probably was made because of Jordan's critical foreign exchange situation.

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#### THE BAHAMAS: Pindling Reacts to Drug Charges

Prime Minister Pindling's spirited defense following press reports that he will be indicted by a US grand jury on narcotics charges is likely to strengthen his political position. [REDACTED] the Prime Minister used a nationally broadcast address to discredit allegations that he has accepted bribes from drug traffickers and to quote senior US officials who have in the past praised Nassau's cooperation in narcotics interdiction operations. [REDACTED]

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[REDACTED] concern that the US might try to apprehend Pindling could result in violence against US citizens in The Bahamas. [REDACTED]

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[REDACTED] Pindling is attempting both to reassure Bahamians concerned about the allegations and to arouse the same kind of nationalistic sentiment that aided his reelection last year. He is likely to take the line that his domestic detractors are politically motivated, particularly as his ruling party faces two early byelections. [REDACTED]

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In Brief

Americas

[REDACTED]

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Middle East

- Ayatollah Khomeini voted yesterday in Iranian parliamentary runoff, first public appearance in five weeks . . . needed son's assistance placing ballot in box . . . precarious health may at least partially explain silence on events in Gulf [REDACTED]

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[REDACTED]

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Europe

- New government likely to replace Belgian EC Commissioner De Clerq in January . . . rumored successor is Flemish Socialist Party Chairman Van Miert . . . unlikely to get De Clerq's EC external relations, trade portfolio because of inexperience. [REDACTED]

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USSR

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- Soviet Union, Zimbabwe signed agreement this week establishing friendship association, [REDACTED] . . . will promote cultural ties . . . continues warming trend in relations. [REDACTED]

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East Asia

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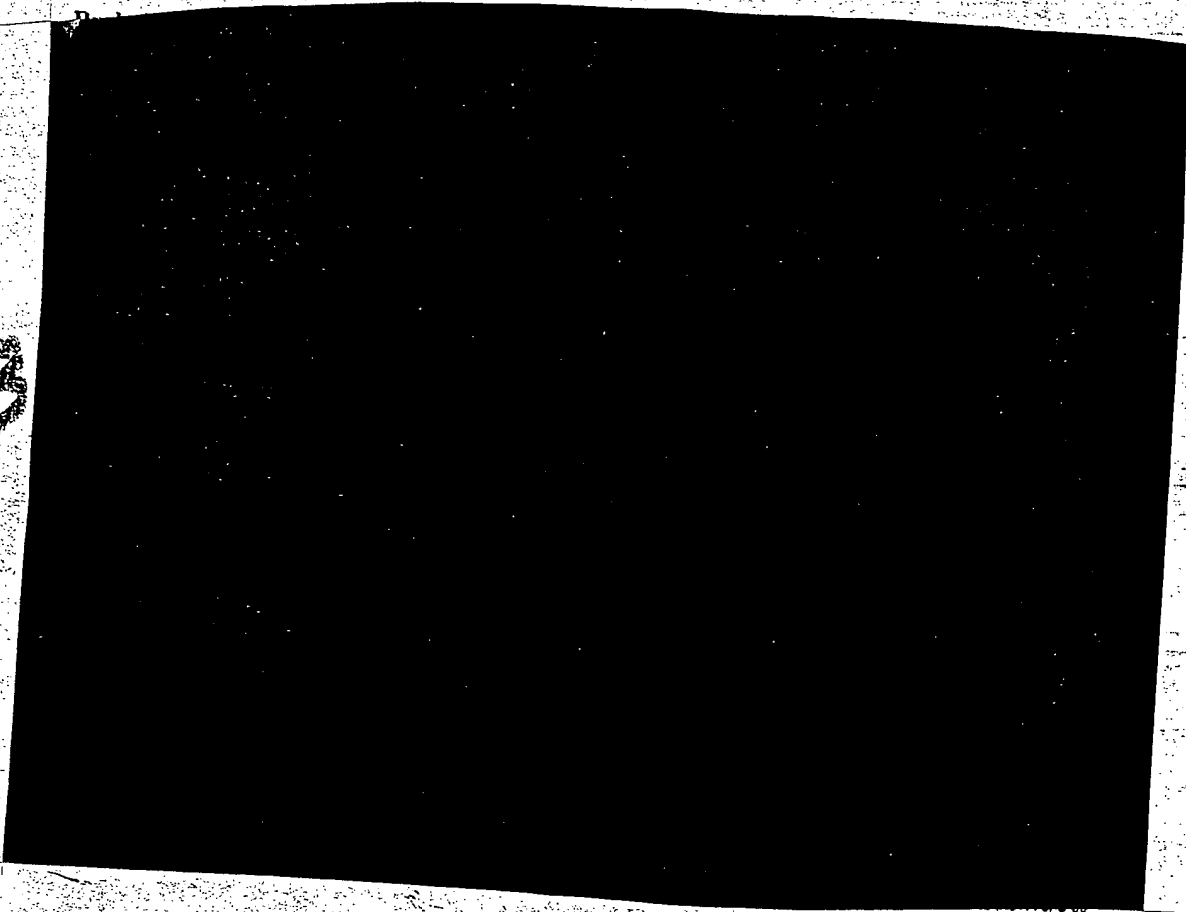
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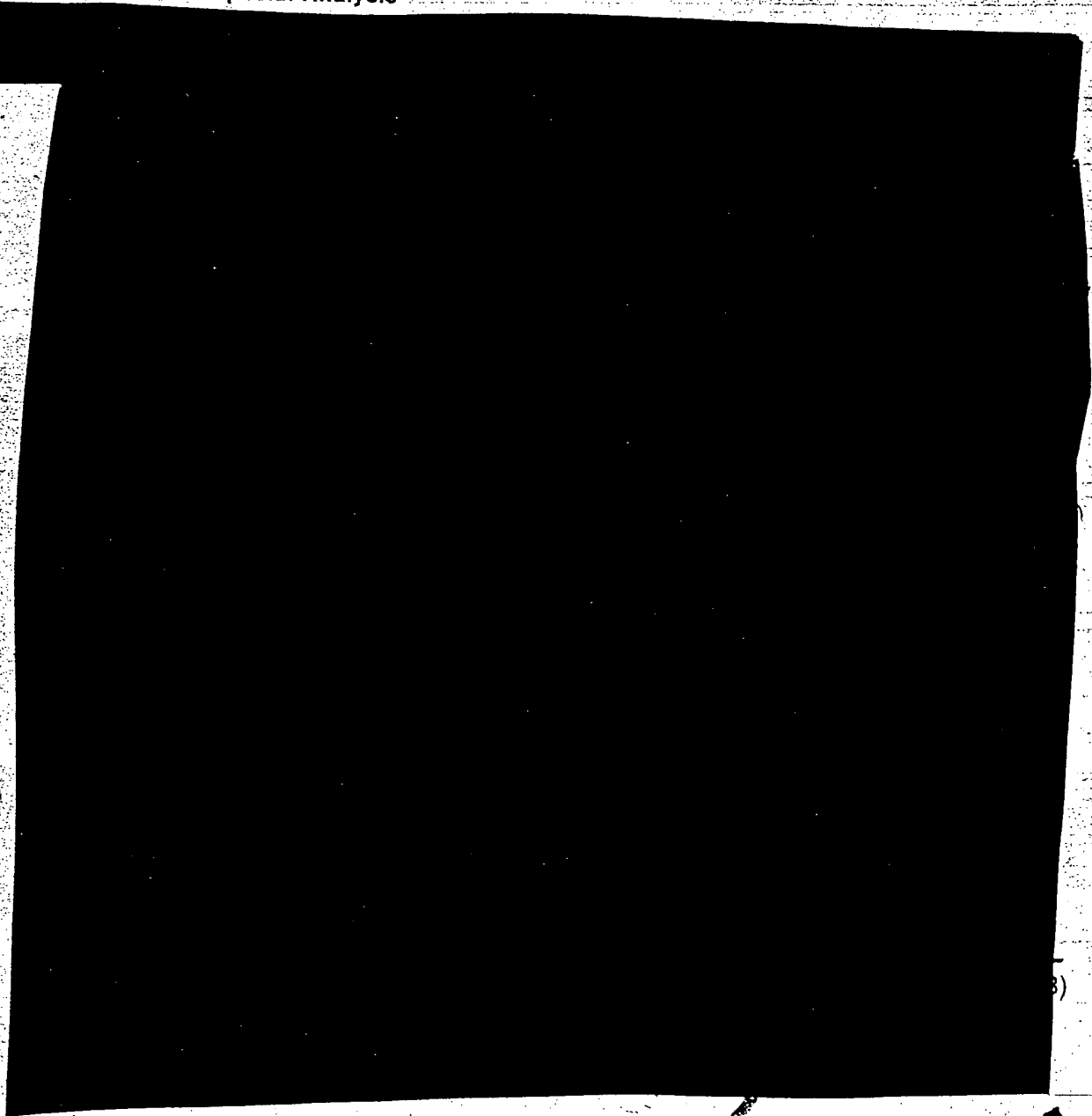
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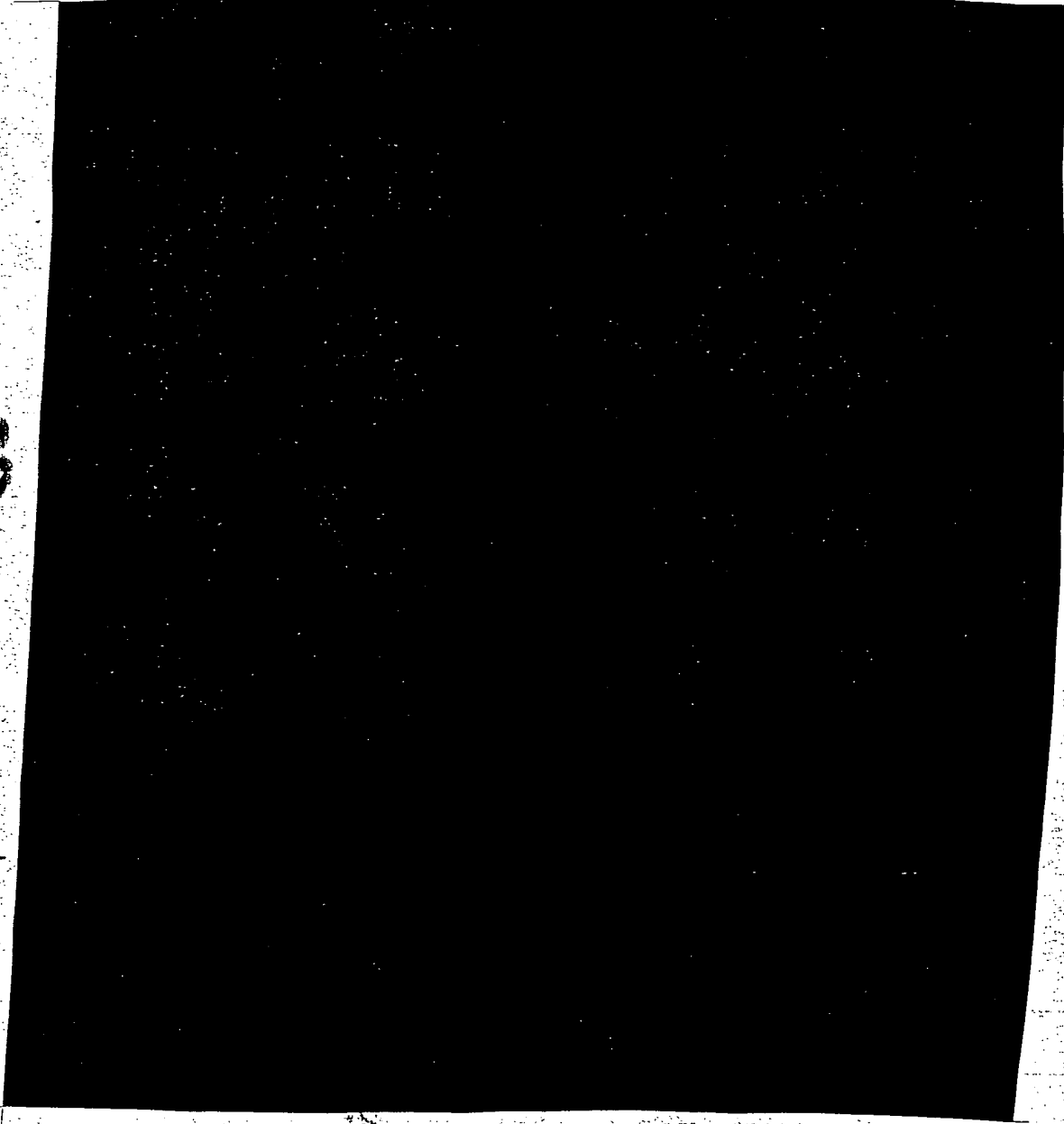
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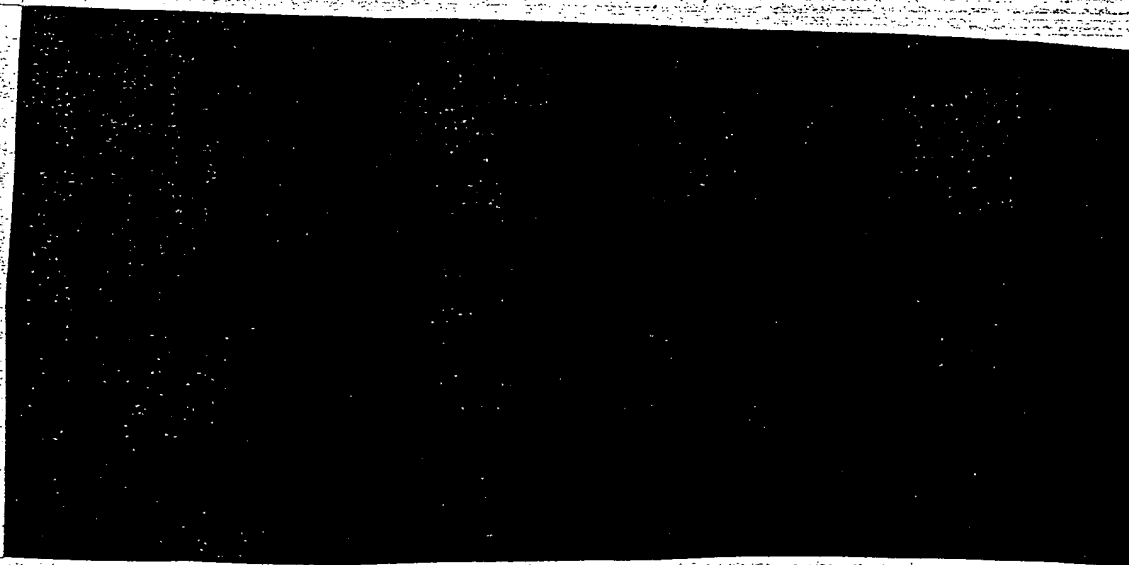
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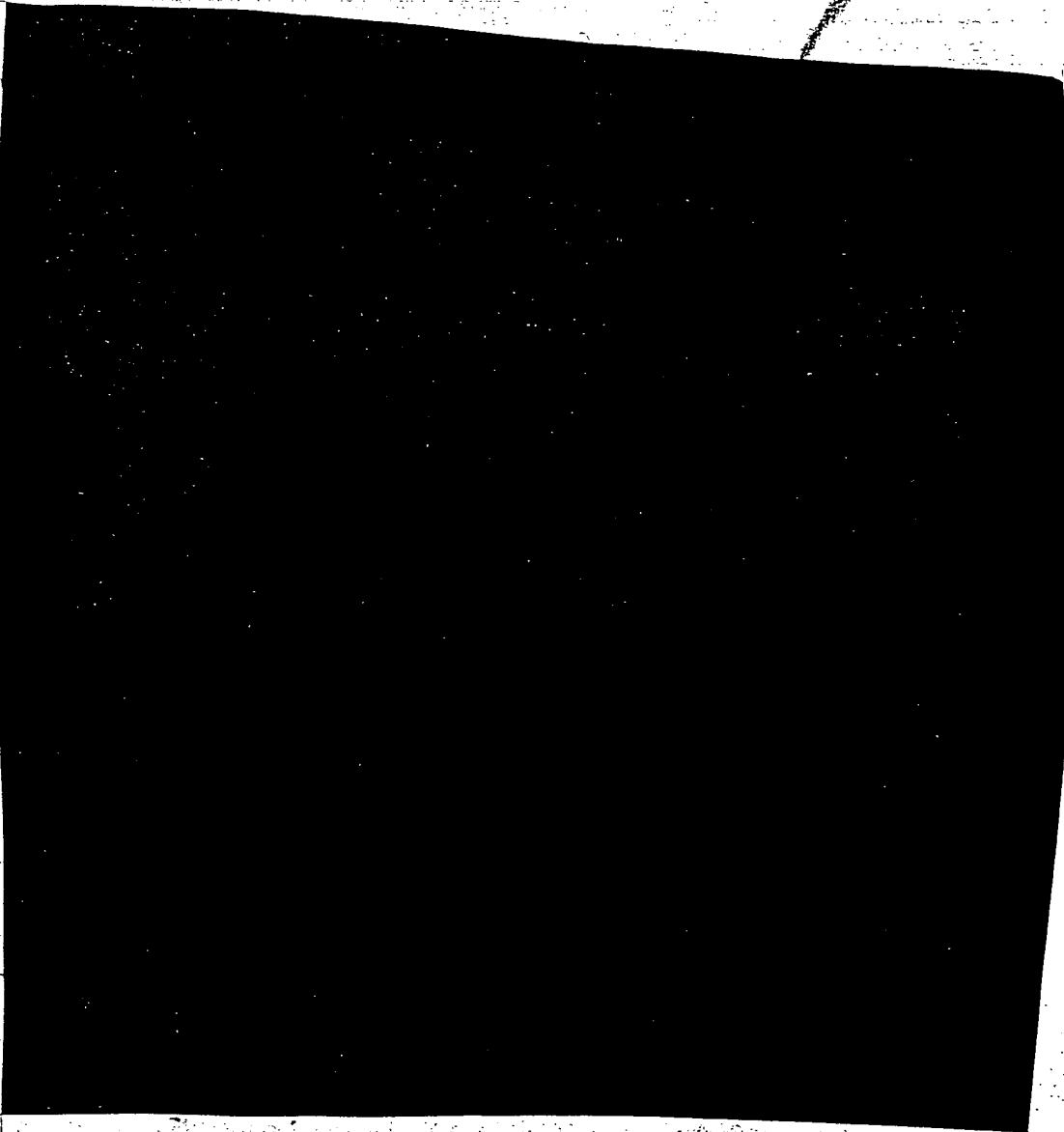
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